

POLS G79 – Globalisation and Governance



Is a comprehensive welfare state simply
unfundable in an era of globalisation?

Shane M. Coughlan
Student number 489398

Index

Page 3 Is a comprehensive welfare state simply unfundable in an era of
globalisation?

Page 15 Bibliography

Comprehensive welfare states need substantial amounts of money to be sustained.¹ This money is generally obtained by national governments through the taxation both of businesses and individuals operating inside its economic sphere.² In an era of globalisation, however, the collection of tax from businesses becomes much more difficult. Instead of controlling a national economy, the state is understood to inhabit a small part of a much larger global economic sphere. As the global economy is bigger than the state, the state's ability to regulate economic matters is severely restricted.³ Furthermore, the relocation of a company in a globally integrated economy is – theoretically – relatively easy, and is potentially cheaper than bearing the high tax burden of the welfare state.⁴ It follows logically that attempting to tax a company heavily is far more likely to result in a company's departure from the state than in greater tax revenue. Hence companies will tend, in an era of globalisation, to base themselves in low tax, non-welfare states.⁵ Hence the assumption that the openness to capital and trade flows caused by globalisation will effect the welfare state negatively.⁶ Gray even goes so far as to suggest that welfare states “are being compelled progressively to dismantle themselves, so that they can compete on more equal terms with economies in which environmental, social and labour costs are lowest.”⁷ This paper examines whether this is so, and if it is, why.

¹ Ian Gough, *The Political Economy of the Welfare State* (London: MacMillan Press, 1979), 14.

² Anthony Giddens, *The Third Way: The Renewal of Social Democracy* (Cambridge: Polity Press, 1998), 10.

³ Roger Burrows and Brian Loader, *Towards a Post-Fordist Welfare State?* (London: Routledge, 1994), 24.

⁴ Colin Hay, “Globalization, Economic Change and the Welfare State: The Vexatious Inquisition of Taxation?” in *Globalization and European Welfare States: Challenges and Change*, ed. Robert Sykes et al. (Basingstoke: Palgrave, 2001), 49.

⁵ Dexter Whitfield, *Public Services or Corporate Welfare: Rethinking the Nation State in the Global Economy* (London: Pluto Press, 2001), 11.

⁶ Paul Hirst and Grahame Thompson, *Globalization in Question: The International Economy and the Possibilities*, 2nd ed. (Cambridge: Polity Press, 1999), 163.

⁷ *Ibid.*

To accomplish its analysis this paper is nominally split into five sections. The first two will attempt to define the welfare state and establish what is globalisation. It is important to clarify our terms before considering what pressures globalisation puts on the welfare state and the reason welfare may be unfundable, and examining the arguments that suggest welfare is indeed fundable or even necessary in a global era. The final section of this paper will consider the end result of globalisation on welfare. It asks if welfare is indeed unfundable, and examines what future welfare states might have. By the conclusion of this paper the reader will have a clear (if not exhaustive) understanding of the challenge globalisation presents to the welfare state, and the arguments both for and against the continuation of welfare in a global world.

Our first topic must be that of defining our terms. While John Clarke simply defines welfare states as ‘convenient fictions’ that “pay our benefits [and] produce and distribute services” (among other things),⁸ the Swedish theorist Esping-Andersen divides these ‘convenient fictions’ into three types. The social democratic regime is committed to full employment and wage and gender equality, the conservative regime emphasises social insurance and benefits, and the liberal regime focuses on means-testing social assistance.⁹ All three types of regime are welfare states, but they can be easily differentiated from each other. Indeed, further differentiation has been suggested, with the Spanish theorist Ferrara suggesting a fourth type of regime (Latin model welfare) that has strong aspects of ‘patronage’¹⁰. We need to create a definition of welfare states that allows us to compare welfare regimes in general with the effects of globalisation.

⁸ John Clarke, “Globalization and Welfare States: Some Unsettling Thoughts,” in *Globalization and European Welfare States: Challenges and Change*, ed. Robert Sykes et al. (Basingstoke: Palgrave, 2001), 27.

⁹ Whitfield, p132.

This paper proposes that at its most simple a welfare state is “a country that has a state system to ensure a decent living standard for its citizens.”¹¹ It is a “set of state policy outputs which pursue the goal of enhancing human welfare”¹² and “encourages social *and collective responsibility*”¹³ with redistribution from the rich to the poor. Though welfare state activities include state interventions “above and beyond the direct provision of social benefits and services”¹⁴, this paper defines the welfare state as primarily the state provision of social services¹⁵ and regulation of private activities¹⁶ for the purposes of redistribution (or universal access, in the case of social democratic regimes). This definition is universal enough to be generally applicable, and narrow enough to allow welfare states to be differentiated from non-welfare states.

We must now both define and explain globalisation, a term that is – to put it mildly – highly contested. Globalisation as a concept originates in the way that “Rapid increases in international economic exchanges during the past four decades have made national economies very open, by historical standards, to the world economy”.¹⁷ For some globalisation refers to the process of national economies becoming more open, economics becoming more ‘global’ than ‘national’, and to the reduction of national controls over economic matters.¹⁸ According to what might be called the ‘strong globalisation thesis’ or ‘hyper-globalisation thesis’ this means that

¹⁰ Maurizio Ferrara, “The Four Social Europes: Between Universalism and Selectivity,” in *The Future of European Welfare: A New Social Contract?*, ed. Martin Rhodes and Yves Mény (London: MacMillan, 1998), 87.

¹¹ Hiroto Tsukada, *Economic Globalization and the Citizens' Welfare State: Sweden, UK, Japan* (Aldershot: Ashgate Publishing, 2002), 2.

¹² Ian Gough, “Social welfare and competitiveness,” *New Political Economy* 1,2 (1996): 211.

¹³ Whitfield, p131.

¹⁴ Gough, 1979, p4.

¹⁵ Gough, 1979, p3.

¹⁶ Gough, 1979, p4.

¹⁷ Robert O. Keohane and Helen V. Milner [eds.], *Internationalization and Domestic Politics*, (Cambridge: Cambridge University Press, 1996), 3.

¹⁸ Ramesh Mishra, *Globalization and the Welfare State*, (Cheltenham: Edward Elgar, 1999), 3-4.

the authority of states in the world today is therefore critically undermined¹⁹, and an era of “market, productive and financial integration across the world, is at hand”.²⁰

Globalisation can be envisioned as a process that is changing the world from a loose organisation of states into a single giant economy.

This, however, is a claim that is immediately contested by what might be called ‘globalisation scepticism’, a view neatly summed up by Hirst and Thompson’s comment that “the closer we looked the shallower and more unfounded became the claims of the more radical advocates of economic globalization”.²¹ While neoliberal and functionalist writers see globalisation as technologically determined and inevitable, an alternative view that originates in Marxist and Weberian thought sees globalisation as something much more political.²² Though globalisation can be understood as a force or process or trend that is pressuring the national to become global, it can also be understood as “*the ideology behind these trends and the desirability of these trends on societies*”.²³ Sceptics propose that ‘global’ economic trends are nothing new, but that the explanation for globalisation itself is a “political force, helping to create the institutional realities it purportedly merely describes”.²⁴ For the sceptics there are international economies, but there is no evidence for a ‘global’ economy²⁵. It is the rhetoric of globalisation that is creating the effects it supposedly describes.

¹⁹ Gough, 1996, p210.

²⁰ Ibid.

²¹ Hirst and Thompson, p2.

²² Giuliano Bonoli et al., *European Welfare Futures: Towards a Theory of Retrenchment*, (Cambridge: Polity Press, 2000), 52.

²³ Bonoli et al., p50.

²⁴ Piven in Bonoli, p53

²⁵ Hirst and Thompson, p16.

This paper agrees with Jessop that globalisation is best understood as the result of many different processes rather than a process in its own right²⁶, and sides with Clarke in suggesting that such processes are “‘unfinished’ and [...] may be uneven or contradictory”.²⁷ This allows for the “possibility that not all of these processes [are] perfectly integrated”²⁸, and that there are movements against globalisation as well as those that promote it. Discourses create practices that create globalisation²⁹, and there are discourses – like those of Hirst and Thompson – that attempt to either undermine or disprove the practices supporting globalisation, or to create ‘anti’ global practices. Globalisation is not a ‘force’ but a description of all those processes that promote globally orientated interactions. For the purposes of this paper we are particularly interested in economic processes that undermine the national welfare state, rather than trying to differentiate between international and global processes. Globally orientated interactions, be they global or international, are regarded as globalisation.

We can now examine how our defined processes of globalisation might make our defined welfare state of social provision unfundable. As mentioned above, in an era of globalisation businesses can pressure governments with threats to defect,³⁰ and therefore undermine the “autonomy and efficiency of government macroeconomic policy”.³¹ Characteristic of globalisation is the perceived imperative of competitiveness,³² and firms in pursuit of competitive advantage regard the taxation needed to support a welfare state as “a disincentive to enterprises and investment”.³³ At the same time governments borrowing to pay for welfare are seen to “‘crowd out’

²⁶ Bob Jessop, “The Transition to Post-Fordism and the Schumpeterian Workfare State,” in *Towards a Post-Fordist Welfare State?* Ed. Roger Burrows and Brian Loader (London: Routledge, 1994), 21.

²⁷ Clarke in Sykes, p22.

²⁸ Clarke in Sykes, p21.

²⁹ Clarke in Sykes, p25.

³⁰ Hirst and Thompson, p165.

³¹ Keohane and Milner, p18.

³² Mishra, p7.

³³ Whitfield, p134.

private capital investment”.³⁴ Indeed, comprehensive welfare itself is seen as potentially incompatible with the “conditions and needs of the global market economy”.³⁵ Unemployment benefit is said to hamper worker mobility, income support is seen as wasteful of resources³⁶, and “supply-side innovation and flexibility”³⁷ is regarded as necessary to sustain competitiveness. For ‘hyper-globalists’ the welfare state is ineffective and “radically reducing the role of government in all domains [is needed to create] greater flexibility in the allocation of resources by individuals and firms”.³⁸

It should not be underestimated how fatal the loss of tax revenue could prove to the welfare state. Globalisation induces governments to prioritise “balancing the budget, reducing the national debt and reducing taxation”³⁹ in the name of competitiveness (compared to nations with cheaper labour costs), and in doing so policy is strictly weighted against public spending.⁴⁰ Businesses are seen to be under no less pressure⁴¹ with regards reductions in costs, and will seek tax concessions from governments, leading to the erosion of the “tax base [...] as incomes from capital and higher salaries are increasingly exempt”⁴². Because of the “need to control deficit and debt”⁴³ levels in the name of competitiveness, governments will have to reduce fiscal deficits “by slashing expenditure rather than raising taxes”.⁴⁴ If a country fails to reduce social charges associated with costly social programs it could undermine the

³⁴ Gough, 1996, p217.

³⁵ Whitfield, p134.

³⁶ Ibid.

³⁷ Burrows and Loader, p20.

³⁸ OECD Secretariat quoted in Whitfield, p136.

³⁹ Mishra, p38.

⁴⁰ Ibid.

⁴¹ Whitfield, p134.

⁴² Hirst and Thompson, p165.

⁴³ Mishra, p37.

⁴⁴ Ibid.

capital available to it as businesses move elsewhere.⁴⁵ This potentially leads to a ‘race to the bottom’ as countries compete to reduce costs to attract globalised business concerns, and in doing so have to reduce the “funding of welfare states and public spending on health, education and social care”.⁴⁶

Further to this is the imperative of labour flexibility in globalisation. Giddens suggests that a high rate of business creation and failure is a sign of a competitive economy, and that such a dynamic environment is “not compatible with a society where taken-for-granted habits dominate, including those generated by welfare systems”.⁴⁷ An example of this is how unemployment benefit and welfare systems are seen as having drifted towards “quasi-permanent income support”⁴⁸ systems, and have reduced the likelihood of people working.⁴⁹ The welfare state’s supposed inefficiency in the allocation of resources⁵⁰ is incompatible with the need for the subordination of “social policy to the needs of labour market flexibility”⁵¹ in globalisation. In an era of globalisation, therefore, the welfare state is challenged by the processes that seek more effective competitive behaviour, and those that seek more flexible labour for ‘dynamic businesses’. Combined with a loss of tax revenue, and an inability to finance the costly comprehensive welfare state through borrowing, a government attempting to fund welfare appears to face an insurmountable obstacle.

There appears then to be a fairly damning argument against the feasibility and rationality of funding the welfare state in an era of globalisation. It is an argument, however, that cannot explain why the welfare state has proven to be extremely

⁴⁵ Gough, 1996, p217.

⁴⁶ Whitfield, p137.

⁴⁷ Giddens, p100.

⁴⁸ OECD quoted in Gough, 1996, p209.

⁴⁹ Giddens, p122.

⁵⁰ Gough, 1996, p215.

⁵¹ Gough, 1996, p211.

resilient to fundamental change in actuality.⁵² Rather than assuming that states are seized by a collective self-destructive insanity, we can attribute this resilience to a variety of factors that have caused an increase in the demand for welfare itself: lower birth rates, longer life expectancy, increased welfare inequality, and increasing need for education and training are some examples.⁵³ It is also possible that the known excessive costs of private provision of certain goods like healthcare in the USA have dissuaded countries relying on lower cost public healthcare from attempting system change.⁵⁴ It has also been proposed that high social spending based on redistribution will actually contribute to economic stability because those primarily receiving benefits are poor, and they spend their capital quickly on consumption through necessity.⁵⁵ This leads to a situation that potentially stimulates economic growth rather than hinders it.

Unregulated markets do not provide benefits like unemployment assistance and healthcare for uninsurable risks because of the imperatives of making a profit consistently.⁵⁶ Likewise pensions and sickness benefits are likely to be perceived as drains on the profitable distribution of resources in the economy. This perception may actually reduce the ‘competitive’ nature of a national economic market. Gough points out that unemployment assistance is known to result in more people actually staying in the labour market⁵⁷, pensions do not actually reduce workers available to the market⁵⁸, and sickness benefit is not a disincentive to work but is a “precondition for labour supply”.⁵⁹ Clarke suggests, “A strong welfare state can compliment, not

⁵² Whitfield, p131.

⁵³ Ibid.

⁵⁴ Gough, 1996, p218.

⁵⁵ Gough, 1996, p215.

⁵⁶ Gough, 1996, p218.

⁵⁷ Gough, 1996, p216.

⁵⁸ Ibid.

⁵⁹ Gough, 1996, p218.

hinder, more flexible markets by reducing the fear of change”.⁶⁰ Small nations like Austria, the Netherlands and Sweden provide a potential template for what is called the corporatist welfare state, where government, the unions and business work together to reach consensus on economic policy, and work together to implement it.⁶¹ The welfare state offers security for the workers and can therefore obtain their consent to allow businesses to act in a relatively flexible fashion with regards labour supply.⁶² Furthermore, the public of these nations actively pay for the welfare state through general taxation rather than through employer contributions, tax on capital and public borrowing⁶³, suggesting that a particular type of welfare state might be more resilient – or even necessary – in a global era.

There is a tantalising further argument for the sustainability and fundability of the welfare state in globalisation. In the USA, a country with a weak welfare system and a strong support for neoliberal conceptions of competitiveness, a relatively low male unemployment rate is achieved “by virtue of incarcerating a much larger part of its ‘surplus’ male population than any other Western economy”.⁶⁴ Hay pointed out this can be seen as an intervention in the labour market as an alternative to welfare provision, and that it is far more expensive an intervention than a comprehensive welfare system.⁶⁵ Potentially then the welfare state can actually improve international competitiveness, allow for greater flexibility of labour than non-welfare states, and cost less than alternative arrangements for dealing with the ‘victims’ of a dynamic economy.

⁶⁰ Clarke in Gough, 1996, p201.

⁶¹ Hirst and Thompson, p164.

⁶² Ibid.

⁶³ Hirst and Thompson, p166.

⁶⁴ Clarke in Sykes, p30.

⁶⁵ Colin Hay, *What's Globalisation Got To Do With It?*, 9 April 2003 (14 April 2003).
<http://www.bham.ac.uk/POLISIS/departments/staff/publications/hay_inaugural.htm>

We have strong arguments both for and against the funding of welfare systems in an era of globalisation. This is perhaps reflective of the evidence available on the matter. Calmfore and Dreffil have pointed out that there is a u-shaped relationship between welfare and employment ratios, with both neoliberal (anti-welfare) and highly centralised welfare regimes performing well.⁶⁶ Welfare *and* the removal of welfare can apparently work in the context of a competitive global economy. In short, “Globalisation has not eliminated the scope for extensive welfare [and] states have clear options so long as they have the political resources”.⁶⁷ A decision on the feasibility and fundability of the welfare state is perhaps more ideological than empirical in origin. There is the impression that welfare states are unfundable, that they reduce competitiveness and result in inflexible labour.⁶⁸ This impression is enough to severely reduce their feasibility in actuality if it affects policy. Thus we return to Gray’s comment that welfare states are being forced to dismantle themselves to compete.⁶⁹

Quite apart from neoliberal attempts to dismantle the welfare state, there is an insidious ideology inside social democracy that suggests a replacement for the welfare state through a ‘third way’ of empowerment instead of dependency.⁷⁰ For the ‘third way’ “the guideline is investment in *human capital* wherever possible rather than the direct provision of economic maintenance”.⁷¹ The ‘third way’ accepts the ‘hyper-globalists’ criticisms of the welfare state, believing it to be an ineffective and inflexible allocation of a nation’s resources, and suggests a “‘hollowed-out

⁶⁶ Gough, 1996, p222.

⁶⁷ Hirst and Thompson, p190.

⁶⁸ OECD Secretariat quoted in Whitfield, p136.

⁶⁹ Hirst and Thompson, p163.

⁷⁰ Whitfield, p142.

⁷¹ Giddens, p117.

Schumpeterian workfare state”⁷² as its replacement. A workfare state prioritises poverty reduction through employment rather than benefits, though it maintains benefits for those who cannot find work.⁷³ In contrast to the welfare state, which emphasises the demands of the needy, a workfare state concentrates on the supply of labour in an economy. It seeks to provide more labour in a more flexible way to the economic market, and through this flexibility assumes a greater global competitiveness. It is important to note that the ‘third way’ is not really an alternative to neoliberal dismantling of the welfare state, but is instead a different way of accomplishing such a dismantling process.⁷⁴ For “if the public sector is not promoted and defended within a capitalist economy then it will ultimately decline and be residualised”.⁷⁵

The Japanese theorist Tsukada suggests that in the long term the processes of globalisation undermining the welfare state will end with the disappearance of “natural resources and cheap labour”.⁷⁶ Workers worldwide will unite to exert equal power against the global firms⁷⁷, and there will emerge a new ‘international corporatism’ among the governments, globalized management and globalized labour unions”.⁷⁸ This will introduce a new ‘global’ welfare state following traditional goals of welfare provision and access.⁷⁹ In the short term, however, the imperatives of competitiveness and flexibility induced by globalisation will continue to erode the power of the welfare state. Pressures to reduce taxation and reduce deficits will lead inevitably to a removal of the traditional sources of funding for the welfare state

⁷² Burrows and Loader, p24.

⁷³ Whitfield, p141.

⁷⁴ Whitfield, p164.

⁷⁵ Ibid.

⁷⁶ Tsukada, p211.

⁷⁷ Tsukada, p211.

⁷⁸ Tsukada, p212.

⁷⁹ Ibid.

whether or not the welfare state is beneficial to global competitiveness. The only solution is to seek an alternative source of funding of welfare through a “higher burden on the citizens themselves”.⁸⁰ This will mean higher taxation or social contributions from citizens⁸¹ to maintain the safety net of welfare. If citizens want welfare in an era of globalisation they will be forced to fund it themselves.⁸²

In conclusion then a comprehensive welfare state is not unfundable in an era of globalisation, but is perceived as being so. The imperatives of competitiveness, reduced taxation and reduced government deficits present a compelling if empirically unsubstantiated argument against strong public services. The retrenchment of existing welfare states can be attributed at least partially to this perception, and further reduction of welfare provision can be expected during this era of assumed globalisation. While a possible respite of non-tax, non-borrowed funding for the welfare state can be accomplished through Tsukada’s ‘Citizen’s Welfare State’, it remains to be seen if such a concept will prove attractive to the advocates of free trade and increased liberalisation of the economic sphere.

⁸⁰ Tsukada, p213.

⁸¹ Tsukada, p214.

⁸² Hirst and Thompson, p166 and Tsukada, p214.

Bibliography

- Bonoli, Giuliano, Vic George and Peter Taylor-Gooby. *European Welfare Futures: Towards a Theory of Retrenchment*. Cambridge: Polity Press, 2000.
- Burrows, Roger and Brian Loader. *Towards a Post-Fordist Welfare State?* London: Routledge, 1994.
- Clarke, John. "Globalization and Welfare States: Some Unsettling Thoughts." In *Globalization and European Welfare States: Challenges and Change*, edited by Robert Sykes, Bruno Palier and Pauline M. Prior. Basingstoke: Palgrave, 2001.
- Ferrara, Maurizio. "The Four Social Europes: Between Universalism and Selectivity," In *The Future of European Welfare: A New Social Contract?* edited by Martin Rhodes and Yves Mény. London: MacMillan, 1998.
- Giddens, Anthony. *The Third Way: The Renewal of Social Democracy*. Cambridge: Polity Press, 1998.
- Gough, Ian. *The Political Economy of the Welfare State*. London: MacMillan Press, 1979.
- Gough, Ian. "Social welfare and competitiveness." *New Political Economy* 1,2 (1996): 209-232.
- Hay, Colin. "Globalization, Economic Change and the Welfare State: The Vexatious Inquisition of Taxation?" In *Globalization and European Welfare States: Challenges and Change*, edited by Robert Sykes, Bruno Palier and Pauline M. Prior. Basingstoke: Palgrave, 2001.
- Hay, Colin. *What's Globalisation Got To Do With It?*. 9 April 2003.
<http://www.bham.ac.uk/POLISIS/departement/staff/publications/hay_inaugural.htm>
- Hirst, Paul and Grahame Thompson. *Globalization in Question: The International Economy and the Possibilities*. 2nd ed. Cambridge: Polity Press, 1999.
- Jessop, Bob. "The Transition to Post-Fordism and the Schumpeterian Workfare State." In *Towards a Post-Fordist Welfare State?* Edited by Roger Burrows and Brian Loader. London: Routledge, 1994.
- Keohane, Robert O. and Helen V. Milner [eds.]. *Internationalization and Domestic Politics*. Cambridge: Cambridge University Press, 1996.
- Mishra, Ramesh. *Globalization and the Welfare State*. Cheltenham: Edward Elgar, 1999.
- Tsukada, Hiroto. *Economic Globalization and the Citizens' Welfare State: Sweden, UK, Japan*. Aldershot: Ashgate Publishing, 2002.

Is a comprehensive welfare state simply unfundable in an era of globalisation?

Whitfield, Dexter. *Public Services or Corporate Welfare: Rethinking the Nation State in the Global Economy*. London: Pluto Press, 2001.